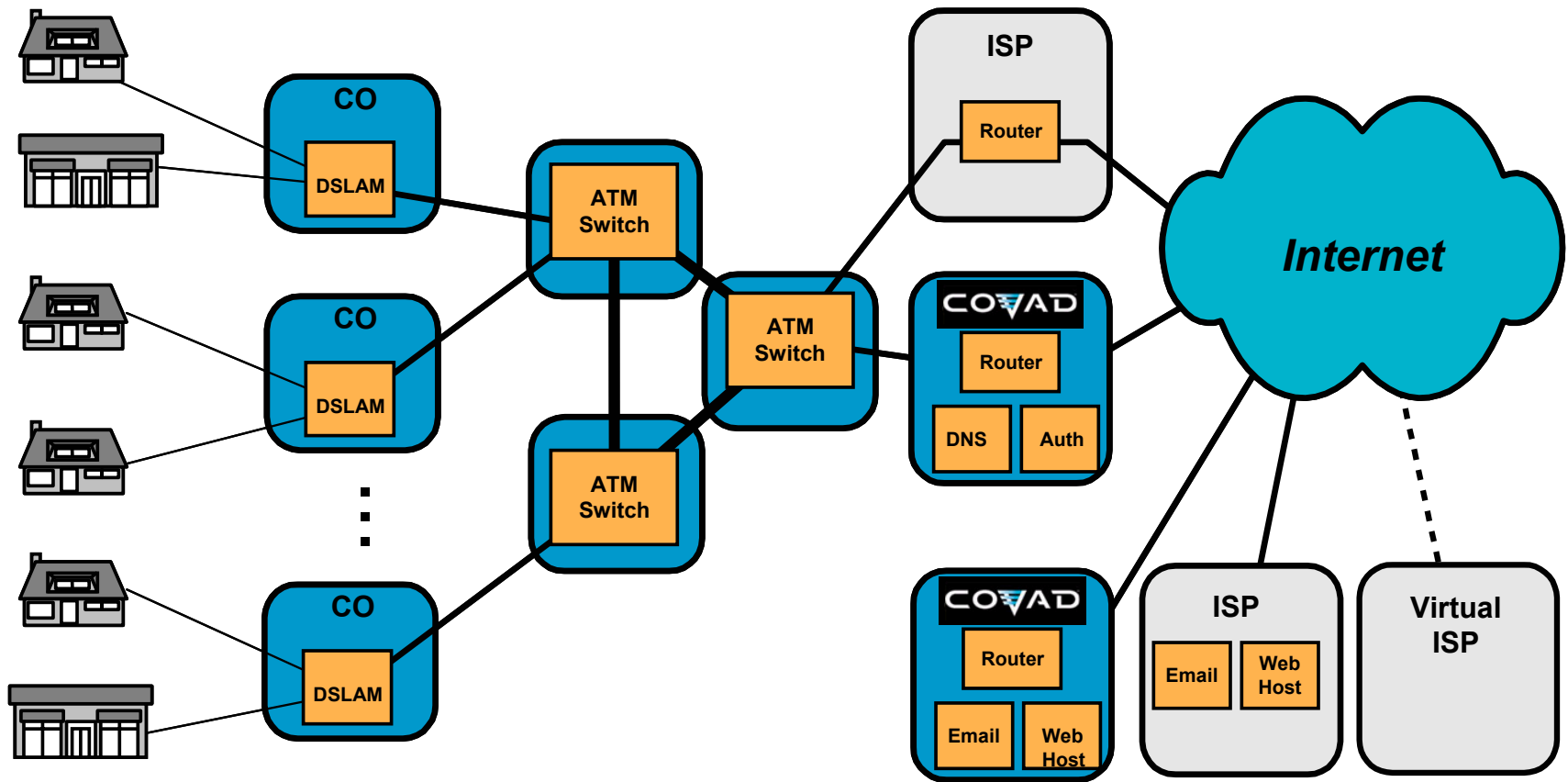




FCC Presentation
6/2004

Business Update

- Covad has invested **hundreds of millions of dollars** in its facilities-based network. Covad continues to invest:
 - \$48 million purchase of VoIP provider GoBeam in 1Q '04
 - \$125 million raised in 1Q '04 to help fund VoIP rollout
 - Expansion into 200 additional central offices in 2004
- **Layer 2 Network Architecture**
 - Over 120 ATM switches and collocated facilities/DSLAMs in over 1900 central offices
 - 45 million homes and businesses passed in 35 states
- **Layer 3 Network Architecture**
 - DSL+IP Point-of-Presence (POP) equipment
 - 16 POPs nationwide collocated with Level 3
- **Voice Service Architecture**
 - VoIP services combine Covad facilities-based broadband network with GoBeam VoIP assets.
 - Additional incremental investments expected (softswitches, media gateways, BRAS upgrades, ATM backbone expansion, DSLAM upgrades, network monitoring equipment).

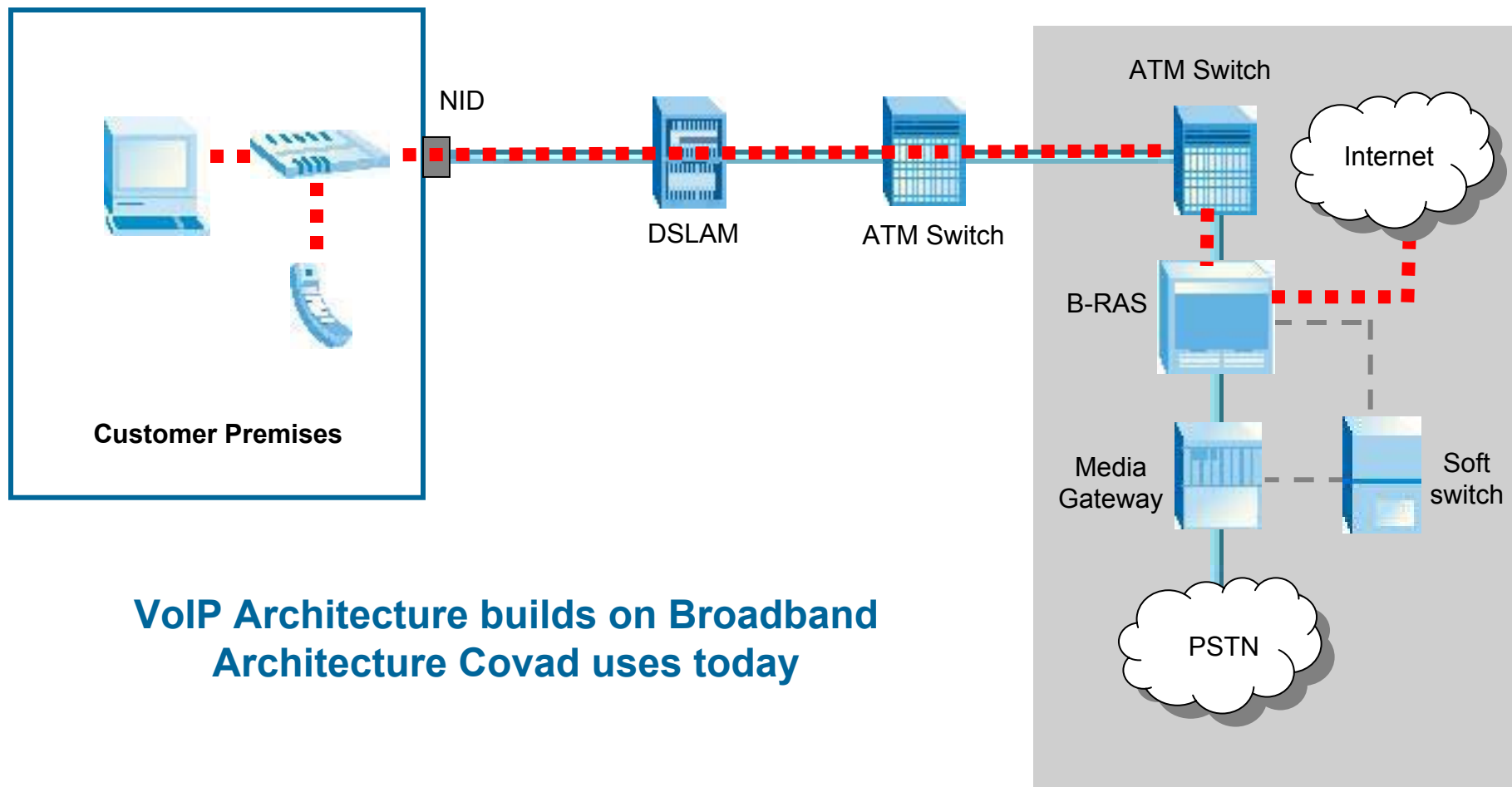


- **Voice Optimized Access**

- Modifies existing DSL services to provide an access line for VoIP delivery.
- Quality of Service guarantees and Service Level Agreements for voice enabled via management of last mile transmission facilities.

- **Full Suite of VoIP Services**

- GoBeam serves SME and Enterprise businesses.
 - PBXi product offers migration from legacy PBX to VoIP
 - vPBX product offers complete hosted-PBX VoIP solution
- Covad plans to expand VoIP service into consumer and SOHO segments across nationwide footprint.
- Enhanced Features – “Dashboard” Web interface, unified visual voice and fax mail, follow-me calling, Outlook integration, conferencing, Web collaboration
- POTS features – LNP, 911, directory assistance



- **Covad's long-term prospects appear promising.**
 1. Line-splitting bundles with UNE-P voice
 2. Migration to voice/data bundles using VoIP
 3. Participation in Wi-Max Forum
- **Improving financial picture.**
 - \$6.3 million EBIDTA profit in 1Q '04.
 - \$57 million SBC debt paid off.
 - Cash-flow projected from -\$3 to +\$2 million for 2Q '04.
- **BUT significant short-term obstacles remain.**
 - Line-sharing phased out in Oct. '04, but line-splitting is not yet even fully operational.
 - TRO leaves Covad without hybrid loop access.
 - Bells continue to chip away at TDM loop access (e.g., T1 loops) through FCC proceedings and unilateral action.
 - **Line losses.** Covad has announced first line losses in its history (1,200 lines in 1Q '04).

FCC Action

- **Since Feb. '03 Triennial decision**, Covad has pursued negotiations aggressively with all four Bell companies.
- **In April '04, Covad and Qwest** signed a 3-year deal.
 - Agreement sets \$5 MRC and \$35 NRC for all line sharing charges (HFPL, OSS, conditioning, and installation) based on expected region-wide line volumes.
 - Covad has approached SBC, Verizon and BellSouth asking for line sharing agreements with the same terms.
- **Prospects for completing commercial deals with remaining major ILECs are highly uncertain.**
 - Qwest has embraced wholesale models, others have not
 - Other Bells have proposed unreasonable terms, including a MRC more than three times the Qwest rate.

Benefits of Line Sharing have increased, not decreased

- Much needed stability and continuity for CLEC broadband offerings while UNE-P/line splitting issues are resolved
- Line Sharing supports viable competitive offerings
 - Large ISPs remain committed to line sharing as means to provide alternative to ILEC DSL and cable
 - Competitive price points – competitive retail prices below ILEC wholesale prices
 - Serves as check on duopoly pricing, monopoly situations
- Line sharing can serve as vehicle to deliver advanced services to consumers and businesses wishing to retain basic ILEC voice services

Prompt FCC Action is required

- **Covad has taken all reasonable steps contemplated by TRO - commercial negotiations, pursuit of line splitting, but more time is required before line sharing is no longer needed for viable broadband competition**
- **Oct. 2004 cut off date** for line sharing 5 months away.
 - Rapid cut-off removes any Bell incentives to negotiate.
 - Bells can simply wait to capture market in Oct. 2004.
- **Line-Splitting obstacles** remain, as evidenced by Covad's loss of 1,200 lines in 1Q '04.
- **USTA II casts large cloud** over line splitting business plans.
- **CHOICE Coalition Line Sharing Stay Petition and Earthlink reconsideration petition pending and should be acted upon promptly**
- **Covad-Qwest deal provides market-based terms** for line-sharing stay: 3 year term, with \$5 MRC and \$35 NRC.